

# Navigating the New Normal: A Port Perspective

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## **INTRODUCTION**

The Coronavirus pandemic triggered unprecedented and widespread health, economic and social challenges. Ports and the broader goods movement industry have not been immune. In fact, the supply chain that was already stressed under the weight of the US-China trade dispute has been tested further by the pandemic, whose long-term ramifications are still unknown. This one-two punch of the trade war and health crisis has interrupted business plans and disrupted the supply chain like never before. Yet, the supply chain has never been more critical for the recovery and stabilization of the US economy. In this paper, I would like to offer a port perspective and introduce a view of “the new normal” and what we have to do as an industry to transition to the new paradigm.

## **SUPPLY CHAIN DISRUPTION**

First, let’s consider the context. Even before the pandemic, the supply chain went through a series of intense disruptions. Years of shipping line consolidation and realignment preceded the US-China trade dispute. Clearly, our industry has faced disruption before, but nothing like what was introduced by the pandemic.

When the Coronavirus spread throughout China, it had the effect of paralyzing the supply side of the supply chain. Manufacturing shut down and, as a result, the Lunar New Year factory closures were extended for weeks. At the Port of Long Beach, we felt the effects of this in Q1 2020. Blank sailings were twice the number we saw the year before and total container volumes declined 6.6% year-over-year.

When the virus entered the US, government health orders were issued in an attempt to contain the spread. These health orders confined people to their homes, effectively slowing down the economy in dramatic fashion. Virtually every sector of the economy was shut down or severely constrained. Fortunately, recognition was given to the positive economic impact that ports and the goods movement industry generate for the benefit of local, state and the national economies. As a result, we were exempted from the health orders and port operations were allowed to continue without disruption.

This meant we had to assure our workforce – our dock workers, truck drivers and all port workers – that the workplace was safe and secure.

## **BUSINESS RECOVERY TASK FORCE**

When we noticed the virus spread across Asia, we knew it was just a matter of time before the virus made its way to the US. Anticipating this reality, we established a Business Recovery Task Force made up of key functions within the Port of Long Beach to anticipate, prepare and respond to all possible scenarios that could potentially impact port operations.

This Task Force, which I have the pleasure of leading, has made it its daily mission to track and gather data, share information with all port stakeholders, anticipate and trouble-shoot operational issues and advocate for favorable legislation at all levels of government:

- 1. Gathering and Reporting Critical Information** – The disruption to the supply chain caused by COVID-19 heightened the need for timely information. COVID-19 quickly spread and affected China and other manufacturing hubs across Asia. Factory shutdowns abroad resulted in roughly twice the number of blank sailings in the first quarter of 2020, compared to the same period in 2019. As the virus began to spread in the US, the supply chain experienced a steep decline in consumer demand, which had the effect of quadrupling the number of blank sailings in the second quarter of 2020, compared with the same period in the year prior. The Port of Long Beach was proactive in aggregating this information and sharing it with our supply chain partners promptly, as we knew this information was critical for them to forecast vessel calls and cargo movement operations. Our team communicated with both the import and export sides of the supply chain industry, terminal operators, shippers, trucking companies and railroads. To help get this information to everyone in a timely fashion, we created the [POLB COVID-19 Overview](#) page on our website. Our Business Development and Communications teams collaborate to update this vital daily.
- 2. Anticipating and Addressing Operational Issues** – Two Long Beach container terminals received an unusually high number of empty containers in the first quarter of 2020. As we received this information, our team was able to prepare for the influx of empty containers, which allowed us to work with our terminal operators and ocean carriers to reposition these critical assets as efficiently as possible. We saw this as an opportunity to help mitigate cargo movement obstacles and continue to support the fluidity of the supply chain.
- 3. Engaging and Mobilizing Supply Chain Partners** – We already worked very closely with our supply chain partners long before the trade war and the pandemic began and this engagement allowed us to connect with customers and stakeholders at a moment's notice. Our robust communications strategy allowed us to convene with our partners virtually to discuss current and upcoming issues to ensure these were in everyone's line of sight. Identifying issues, acting swiftly

and planning accordingly allowed us to reduce, if not eliminate, any operational roadblocks during the pandemic.

- 4. Expediting Containers Carrying COVID-19 Supplies** – We helped to address the shortage of critical medical supplies and personal protective equipment (PPE) by reaching out to importers in the healthcare sector and asking them how we could help them expedite their inbound cargo. Cardinal Health was among those companies that provided the necessary data to help us accelerate shipments of medical gowns, gloves, masks and other PPE sourced from Asia. With this data in hand, we worked with shipping lines, terminal operators, dockworkers and trucking companies to develop a system for prioritizing containers carrying this vital cargo. This collaboration resulted in the swift delivery of these desperately-needed supplies to hospitals and other critical care facilities nationwide.
  
- 5. Advocating for Ports, Goods Movement and Trade** – As different government jurisdictions began considering their actions to help stop the spread of the virus, we stayed engaged with our local, state and the federal governments to ensure that ports and goods movement in general were classified as essential operations. We immediately stepped up our advocacy efforts with government policymakers individually and in collaboration with other port authorities and industry partners to keep the port operating during the pandemic. This involved making sure government officials understood the importance of keeping our ports open. We also provided input into the development of federal legislation, such as the Coronavirus Aid, Relief, and Economic Security (CARES) Act, to provide emergency stimulus money for individuals and businesses impacted by the pandemic. As one of the nation's key economic engines, located within the fifth-largest economy in the world, we used our influence to advocate for ports and the broader supply chain.

Our response to the crisis immediately shifted the priorities of our organization to these objectives. Thanks to the collaboration of our customers and stakeholders, we were able to keep the port open and the workforce safe by securing and distributing PPE to our dock workers and industry partners, instituting additional measures to sanitize the workplace and opening a COVID-19 test site on the waterfront.

## **THE NEW NORMAL**

To say this year has not been a normal year would be an understatement. I would also offer that there hasn't been a normal year in shipping for quite a few years. The pandemic came on the heels of a protracted trade dispute, which was preceded by shipping line industry consolidation and realignment that led to the largest bankruptcy in industry history. And, before that, shipping lines decided to invest in larger ships and divest their chassis assets. These are just some of the factors in recent years that have reshaped and redefined what a normal year looks like. One of our collective challenges

is that we continue to plan for a normal year. If we continue to expect and plan for what was normal in the past, we may be inadequately prepared. Recent history has taught us that the best way to prepare is to expect disruption, contingency plan for external shocks that stress the system and to be agile. The Southern California gateway, as large as it is, has demonstrated its ability to be resilient even through all of these disruptions. Resilience is certainly a competitive advantage. But, in order to be competitive and regain market share, we have to meet the customers' needs for velocity, predictability and reliability.

This is going to be even more important going forward because the pandemic has, in many ways, accelerated trends that have been in motion for some time. Online shopping, for example, skyrocketed in recent months and there is no reason to believe that more consumers will continue to utilize this platform. This requires shippers to have more robust and flexible inventory management systems that positions the product closer to the end consumer. For major retailers, it means recalibrating their supply chains to support omni-channel distribution systems. Until this exercise begins to look less like art and more like science, shippers will continue to plan to have more inventory, not less, and this creates an opportunity for us to raise the bar when it comes to optimizing the supply chain.

## **TECHNOLOGY AND INNOVATION**

Another trend that has been accelerated by COVID-19 is the adoption of technology. Leveraging technology to enhance visibility, predictability and reliability is already happening today and it will continue to evolve and expand in the years ahead. In our port complex, Long Beach Container Terminal is considered one of the most technologically-advanced terminal operations in the world. One of the features that sets this terminal apart from others and enables this operation to offer superior truck turn times is the use of application programming interface (API) technology, which integrates the terminal operating system of the container terminal with the operating systems of the trucking companies. This direct integration optimizes coordination between appointment slots and truck visits.

But, technology in and of itself is only a tool. It becomes a solution when that technology is effectively integrated into the operation. And, that technology also has to be compatible with other segments of the supply chain so that the advantages of technology are maximized.

## **FROM BUSINESS RECOVERY TO CAPITAL DEVELOPMENT**

Even as we realigned our priorities to respond to the near-term impacts of the pandemic, we kept our industry-leading CAPEX program moving forward. At the Port of Long Beach, even in crises, we build. Although COVID-19 triggered unprecedented disruption, we knew it was important to keep an eye on the bigger picture and the long-term.

On parallel track with our business recovery efforts, we are forging ahead with our \$1.5 billion Gerald Desmond Bridge Replacement, \$1.5 billion Middle Harbor Redevelopment and \$860 million Pier B On-Dock Rail Support Facility projects. Together, these projects are critical to strengthen our competitiveness and to ensure we are positioned to serve our customers' needs now and in the future.

Our capital projects also provide good-paying jobs and support our local and regional economies. For these reasons, we continue to advocate for and pursue state and federal funding programs that support the nation's freight system. An investment in goods movement, is an investment in good-paying jobs and the national economy.

## **MOVING FORWARD BY WORKING TOGETHER**

The supply chain is a highly-interdependent system comprised of discrete business units. The success of the system relies on our collective ability to see the bigger picture and do our part to make sure the system – especially the hand-off points – are efficient. The recent crisis has highlighted this fact. Our resilience and success depends on our ability to collaborate and to work together.

Collaboration is the key to addressing legacy issues such as container dwell time, truck turn times and chassis fluidity. Our ability to prioritize and expedite the movement of containers carrying vital medical supplies illustrates the power of collaboration and what the supply chain is capable of achieving when we align our objectives to address system-wide issues. If we are able to harness collaboration to expedite containers carrying medical supplies, we could achieve massive efficiencies by doing this routinely with all inbound containers. Of course, this would involve high-level coordination to ensure the ship at the port of origin is sequentially loaded so that discharge at destination is more orderly and efficient.

This would not be the first time a crisis has resulted in best practices. Past predicaments led to operational efficiencies such as the "pool of pools" chassis model and gate appointments for trucks. We do not have to wait for another crisis to raise the bar when it comes to supply chain optimization. The Port of Long Beach remains committed to driving efficiencies by leveraging collaboration well beyond this crisis.

## **LOOKING AHEAD**

2020 has been a tale of two halves: significant declines in cargo volumes followed by a robust cargo surge. Remarkably, through the first eight months of the year, our cargo volumes are down only 1.2% year-over-year and we expect to end the calendar year flat or possibly even in positive territory. The bright spot has been an uptick in exports, which increased 3.1% through August 2020 compared with the same period last year. This may have been triggered by "Phase 1" of the U.S.-China trade deal reached in January, wherein China agreed to buy \$200 billion worth of American-made goods. This deal brought relief to the retaliatory tariffs and reopened the door for US companies to export to our largest trading partner. The full potential of this trade deal was interrupted

by COVID but we remain optimistic about the potential for exports to continue to grow in the months ahead.

Of course, we recognize that this is the perspective of only one port. We remain cautiously optimistic about the coming months. As we continue to recover from the crisis, how the government and the business sector manage the lingering uncertainty will have a major influence on the state of trade. We are hopeful for a swift recovery and continue growth in trade, but we are prepared for any scenario. We will continue to invest in our infrastructure, drive operational efficiencies and do our part to support the digital transformation in our space. We will continue to strive each day to live up to our tagline – *The Port of Choice*.